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## BOOK REVIEW: KFC in China: Secret Recipe for Success by Warren Liu

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Colonel Harland Sanders, founder of Kentucky Fried Chicken, did not always enjoy the red carpet treatment in his two decades in China. Thanks to its wide spread presence in many Chinese cities, the quintessentially American fast food chain -- whose trademark Colonel is sometimes mistaken for Uncle Sam -- had to brave outbursts of Chinese nationalism, a food safety crisis and, sometimes, corrupt employees.

These episodes, however, are just footnotes in a company "textbook" written by Warren Liu -- *KFC in China: Secret Recipe for Success* -- that is rich in the achievements and experiences of a market leader, worthwhile passing down to future managers. Liu was a former vice president of business development for Tricon Greater China, whose responsibilities included supply chain management, restaurant expansion and development, new product development, quality assurance and information technology.

Tricon, later renamed YUM! Brands, is the holding and operating company for a slew of fast food brands which, besides KFC, include Pizza Hut, A&W, Long John Silver's and Taco Bell. Spun off from PepsiCo, Inc in 1997, the company is in the Fortune 500.

Starting with its very first outlet on November 12, 1987, KFC expanded into an empire of more than 2000 outlets within 20 years in China. Not only did it beat its arch rival, the 'Golden Arches', by two to one in the number of outlets, KFC China was also a winner within the YUM! Brands group. Each restaurant brought home annual revenues of US\$1 million and an above average profit margin of 20%. Today KFC is the largest restaurant chain in China whose food and beverage market, in 2005 alone, was worth RMB 880 billion (US\$110 billion).

### 'Taiwan Gang'

Liu is a member of the Taiwan Gang, a core group of senior YUM! China executives, and is justifiably proud of what he and his fellow Taiwanese colleagues have achieved. References to the Taiwan Gang-- led by Wharton MBA Sam Su, president of YUM! Brands' China division -- are peppered throughout the book.

For example, when Su implemented the highly-popular, morale-boosting "Dragon Award", laced with the symbolism associated with the glories of the mythical animal in Chinese culture, Liu wrote, "To me, this was simply another small example of the power of the Taiwan Gang. Their understanding of China came so naturally, almost instinctively, in ways large and small, requiring no market studies, no climbing of any learning curves and of course, no translation."

Ethnic Chinese business executives from other parts of Asia might argue that they could do the same. But they would have to agree with Liu's observation that the Taiwanese have a significantly stronger command of Mandarin, and a larger population from which to draw managerial talent. Born and raised in Taiwan, Liu furthered his education in America, returning home with a Harvard MBA. He also gained management experience in other multinational corporations such as MasterCard International and Schlumberger Measurement and Systems Group.

The book reveals the managerial and organisational experience garnered from working in these large corporations. Liu systematically groups the ingredients for this secret recipe into chapters about product and marketing, real estate development, localisation and globalisation, and how to assemble and retain the most qualified team.

He also sets the context well, providing a clear overview of market conditions, a concise history of KFC's milestones in China, and even a lesson or two in Chinese culture and history -- critical for entrepreneurs seeking a share in this market of 1.3 billion consumers. Readers are given ample insights into the thinking behind the decision-making process. Two key areas Liu dwells on are logistics, vital for maintaining low costs and ensuring high quality, and real estate, essential for drawing in the right customers, an increasingly complicated task as more outlets open within the same city or town, thus increasing the risk of cannibalisation.

### KFC vs McDonald's

Many reasons have been put forward as to why KFC has the edge over McDonalds, at least for now. Liu goes beyond the obvious argument that fried chicken is more acceptable to the Asian palate than hamburgers. He believes that McDonald's state of the art (and hugely expensive) warehousing facilities, although ahead of its time, has affected its cost structure. Also, the Hong Kong-based McDonald's regional headquarters is not as effective and nimble as KFC's Shanghai base.

Indeed, KFC's success stems from its agility and flexibility, recurring themes in Liu's book. Again, the Taiwan Gang is given some of the credit. Although salaried employees, they brought to the table a strong entrepreneurial spirit, creativity and willingness to adapt. "Therein lies the essence, and the success, of its product localisation programme," writes Liu who speculates on "whether KFC is turning into a Chinese fast food chain." KFC's Chinese customers, who prefer its chicken porridge over McDonald's cheese burger, will agree.

The book is rather sparse with recounting real life incidents -- the buzz, the behind-the-scenes deal-making. There are plenty of details on how things were done, but they are presented in general, broad strokes. Readers will no doubt crave to find out more, especially about the characters, the people whom Liu encountered during his three-year stint.

### Some Internal Issues


In some parts of this otherwise objective and clearly presented book, Liu reiterates his stand on some internal issues within the group. For example, he does not have many good words for the formation of a Chinese fast food brand, East Dawning, by YUM!, arguing strongly and convincingly why he thinks so.


According to YUM!'s website, there are 14 East Dawning restaurants under testing this year, as compared with KFC's 2,200 or even Pizza Hut's 360 outlets. Nevertheless, Liu puts a positive spin on the experiment by stating, "I nonetheless applaud the seemingly unreserved support from YUM! Brands for KFC China's propensity for risk-taking."

As a seasoned China hand with a good understanding of the complexity of this market, Liu makes some interesting insider observations. For example, he has no qualms about highlighting (in mild terms) the superior attitude shown by Shanghainese staff in the company headquarters towards colleagues in the far-flung corners of its expanding empire. Liu, in fact, had to drill into them that the Shanghai office is officially the "Shanghai Restaurant Support Center". Its employees were expected to fulfil that function, and do away with the mindset of an imperial court.

At the end of the book, Liu relates a rather personal anecdote which serves to remind readers just how far KFC, and China's food and beverage industry, has come. Visiting China for the first time in the early 1980s, he met up with a local, Harvard schoolmate. He was staying in the Beijing Hotel, considered then one of the better hotels and good enough to receive foreign guests. Liu and his friend went into the hotel restaurant at 6.30 pm where, initially, they were turned away as they were told the restaurant would close at 7 pm. They were reluctantly admitted in, but had barely placed their orders when the restaurant staff made a great show of sweeping the floor around them, a clear indication that they should leave as soon as possible.

Over the last twenty years, KFC has introduced the concept of fast food dining to millions of Chinese, offering a new dining experience and level of service, and earning the company millions with more to come. Come to think of it, Colonel Sanders would probably not mind very much if the occasional anti-American protestor mistook him for Uncle Sam again.

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